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May 15, 2007

AGENDA ITEM 7

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Blue Cross of California's High Performance Physician Network for 2008
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Approval contingent upon approval of 2008 PPO rates and award of Third Party Medical Administrator Contract.
- IV. INTRODUCTION:**

At the May 16, 2006, and June 20, 2006, meetings of the Health Benefits Committee (HBC), CalPERS staff introduced a high performance network offered by Blue Cross of California, Select PPO. This item was deferred from implementation for 2007. At the April 17, 2007, HBC meeting, this item was presented for action and was again deferred. Therefore, CalPERS staff is reintroducing the Blue Cross high performance physician network and requesting approval contingent upon the 2008 rates and award of the Third Party Medical Administrator Contract. One of the strategic objectives within the current Third Party Medical Administrator for Self-Funded Plans RFP No. 2006-3937 is to ascertain the capability of the Self-Funded health plans to offer a high performance provider network.

Physician practice patterns continue to result in significant variation in the relative cost of providers. This variation in physician practice patterns and the new capabilities for measuring and designing alternative networks creates an opportunity for CalPERS to differentiate providers with cost and quality measures. Placing providers who operate with lower costs and high quality into a high performance physician network will ensure quality of care while providing greater cost savings. The use of a high performance network will also encourage members to use cost-effective providers.

V. BACKGROUND:

Beginning January 1, 2008, CalPERS staff will begin a new contract with Blue Cross, contingent on HBC approval and rate renewals. CalPERS staff continues to analyze healthcare costs and utilization variations by physician groups (individual practice associations and medical groups) to identify further network options that will encourage the use of cost-effective providers while maintaining quality of care. Physician groups influence not only what care is delivered, but where it is delivered. Creating a network

that consists of those physician groups that have demonstrated an ability to provide efficient, cost-effective care will provide an opportunity for substantial savings.

VI. ANALYSIS:

The Blue Cross Select PPO network has been in effect for one year. Select PPO received low market attraction in 2006 due to competition among HMO alternatives. However, Select PPO was implemented as a health plan option by the Joint Powers Authority (JPA) for schools. Blue Cross has reviewed actual physician performance in contrast to expected results. The results of their study are included in Attachment 1, Blue Cross Select PPO Network Update.

Steven Scott, Vice President Large Group, Blue Cross of California, will present the Blue Cross Select PPO Network Update.

VII. STAFF RECOMMENDATION:

Staff recommends approval of the Blue Cross of California High Performance Physician Network, contingent upon approval of 2008 PPO rates and award of the Third Party Medical Administrator Contract.

VIII. STRATEGIC GOAL:

This item supports Goal X of the strategic plan which states, "Develop and administer quality, sustainable health benefits programs that are responsive to and valued by enrollees and employers."

IX. RESULTS/COSTS

Compared to the PERS Choice Basic plan, the Blue Cross of California High Performance Physician Network (PPO Select) will provide an estimated five percent claims savings and an estimated six percent premium rate decrease. PERS Choice Basic plan premium rates will increase by an estimated one percent, due to movement into PPO Select as members remaining in PERS Choice would use less efficient providers.

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Attachment